

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN
81-7544
ANNUAL FINANCIAL REPORT
June 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name MILAN AREA FIRE DEPARTMENT	County WASHTENAW
Audit Date 06/30/04	Opinion Date 09/16/04	Date Accountant Report Submitted to State: DECEMBER 14, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) COOLEY HEHL WOHLGAMUTH & CARLTON CPAS, PLLC			
Street Address ONE SOUTH MONROE STREET	City MONROE	State MI	ZIP 48161
Accountant Signature <i>James R. Cooley</i>		Date 12/16/04	

**MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN**

TABLE OF CONTENTS

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements:	
Government Wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities	8
Governmental Fund Financial Statements:	
Balance Sheet	9
Reconciliation of Fund Balance to Net Assets	10
Statement of Revenues, Expenditures, and Changes in Fund Balance	11
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance to the Statement of Activities	12
Notes to Financial Statements	13-19
Required Supplemental Information:	
General Fund:	
Budgetary Comparison Schedule	20



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Independent Auditor's Report

Executive Committee
Milan Area Fire Department
Milan, Michigan 48160

We have audited the accompanying basic financial statements of the Milan Area Fire Department as of and for the fiscal year ended June 30, 2004. These basic financial statements are the responsibility of the Milan Area Fire Department Executive Committee. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Milan Area Fire Department as of June 30, 2004 and the results of its operations for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 and Note 9 the Fire Department has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* as of July 1, 2003. This results in a change in the format and content of the basic financial statements.

Executive Committee
Milan Area Fire Department

The Management's Discussion and Analysis and the other required supplementary information on pages 3 through 6 and on page 20, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Cooley Hehl

Whelan & Carter

September 16, 2004

**MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2004

Using this Annual Report

This section of the Milan Area Fire Department Executive Board annual financial report presents the discussion and analysis of the Fire Board's financial performance for the fiscal year ended June 30, 2004. Please read this report in conjunction with the financial statements that follow this section.

This annual report consists of three parts-*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Fire Department.

- The *government-wide financial statement* provides both *long-term* and *short-term* information about the Fire Department's *overall* financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Fire Department as a whole and present a longer-term view of the Fire Department's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.
- The Statement of Revenues, Expenditures and Changes in Fund Balances provides information on the Fire Department's operations under the modified accrual method. These fund financial statements focus on current financial resources and provide a more detailed view about the accountability of the Fire Department's sources and uses of funds.
- The reconciliation of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2004

Condensed Financial Information

The table below compares key financial information of the government-wide financial statements in a condensed format between the current year and the prior year:

	<u>2004</u>	<u>2003</u>
Current assets	\$342,272	\$347,994
Capital assets	<u>476,618</u>	<u>451,558</u>
Total assets	818,890	799,552
Current liabilities	<u>12,138</u>	<u>12,797</u>
Total liabilities	12,138	12,797
Net assets:		
Invested in capital assets	476,618	451,558
Restricted for capital outlay	<u>330,134</u>	<u>335,197</u>
Total net assets	<u>\$806,752</u>	<u>\$786,755</u>
Revenue:		
Charges for services	\$111,671	\$111,055
Operating contributions	192,657	203,450
Capital contributions	73,000	68,500
Grants	20,973	-
Other	<u>6,957</u>	<u>5,825</u>
Total revenue	405,258	388,830
Expenses - Fire Department operations	<u>385,261</u>	<u>316,780</u>
Change in net assets	<u>\$ 19,997</u>	<u>\$ 72,050</u>

**MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended June 30, 2004

The Fire Department as a Whole

- The Milan Area Fire Department was established on July 1, 1980 by an agreement between the City of Milan, London Township, Milan Township, and York Township. The terms of this agreement were replaced with an agreement effective January 1, 2003. This agreement is intended to remain in full force and effect until June 30, 2007.
- The Fire Department's net assets increased by \$19,997 this year compared to \$72,050 in the prior year.
- The Fire Department's primary source of revenue is from contributions received from four different municipalities based on a formula derived from their relative state equalized values, square miles, populations, miles of roadway, and number of dwellings.
- The Fire Department received a Federal Grant in the amount of \$17,986 and a State Grant in the amount of \$2,987 to cover the costs of communications equipment.
- Personnel, training and dispatch services continue to be the Fire Department's most significant expense, representing 53 percent of the Fire Department's total expenses. The addition of several training programs contributed to an increase of \$17,690.
- Depreciation expense of \$37,053 represents approximately ten percent of the Fire Department's total expenses. The Fire Department upgrades or replaces equipment after inspections indicate it has reached its full useful life or needs to be replaced due to safety issues. In the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance an increase in total expenses between the prior year and the current year are due primarily to the increase in equipment purchases and capital outlays in the amount of \$104,854.

Fire Department Budgetary Highlights for 2003-2004

- The 2003-2004 budget reflected a reduction in amounts contributed for equipment purchases and capital outlays from \$73,000 to \$68,000.
- The Fire Department's capital assets include the purchase of a new brush fire truck and the purchase of a new SCBA air bottle fill station.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2004

Fire Department Budgetary Highlights for 2003-2004 (Concluded)

- There were no variations between the Fire Department's original and final budget. However, there were significant variations between the final budget and actual results for small equipment and capital outlays of \$28,056 and \$12,113, respectively. These variations were partially offset by the Federal and State Grants received to cover the costs of communications equipment. These variations will not have an effect on the Fire Department's future services or liquidity.

Next Year's Funding (2004-2005)

- Next year's funding will reflect a reduction in the amount contributed for equipment purchases from \$23,000 to \$15,000 and capital outlays from \$50,000 to \$30,000.
- The total budgeted operating expenses of \$314,166 will be billed quarterly to the four municipalities based on the percentages derived from current state equalized values, square miles, populations, miles of roadway, and number of dwellings. The percentages for each unit of government are as follows: the City of Milan - 40.88%, York Township - 25.59%, Milan Township - 18.80%, and London Township - 14.73%.
- Any amount of budgeted operating expenses which goes unused will be credited to the municipalities in the beginning of the next fiscal year.

**MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN**

STATEMENT OF NET ASSETS

June 30, 2004

ASSETS

Current assets:

Cash	\$214,067
Due from other governmental units - local	91,732
Prepaid expenses	<u>36,473</u>

Total current assets	342,272
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Noncurrent assets:

Capital assets, net of accumulated depreciation	<u>476,618</u>
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Total assets	<u><u>\$818,890</u></u>
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LIABILITIES

Current liabilities:

Accounts payable	\$0
Accrued payroll	<u>12,138</u>

Total current liabilities	<u>12,138</u>
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Total liabilities	12,138
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NET ASSETS

Invested in capital assets:

City of Milan	200,080
Milan Township	85,992
York Township	118,986
London Township	<u>71,560</u>
Total invested in capital assets	476,618

Restricted for capital improvement:

City of Milan	138,847
Milan Township	59,383
York Township	82,270
London Township	<u>49,634</u>
Total restricted for capital improvement	<u>330,134</u>

Total net assets	<u>806,752</u>
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Total liabilities and net assets	<u><u>\$818,890</u></u>
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(See accompanying notes to financial statements)

**MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN**

GENERAL FUND

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2004

		<u>Program Revenue</u>			<u>Net Revenue and Change in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Capital Grants & Contributions</u>	<u>Governmental Activities</u>
Function/Program:					
Governmental activities-					
Fire department services/operations	<u>\$385,261</u>	<u>\$111,671</u>	<u>\$192,657</u>	<u>\$93,973</u>	\$13,040
General Revenue:					
Interest					1,957
Donations					<u>5,000</u>
Total General Revenue					<u>6,957</u>
Change in Net Assets					19,997
Net Assets - Beginning of Year					<u>786,755</u>
Net Assets - End of Year					<u>\$806,752</u>

(See accompanying notes to financial statements)

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

GENERAL FUND

BALANCE SHEET

June 30, 2004

ASSETS

Cash	\$214,067
Due from other governmental units - local	91,732
Prepaid expenses	<u>36,473</u>
Total Assets	<u><u>\$342,272</u></u>

LIABILITIES AND FUND EQUITY

Liabilities:	
Accounts payable	\$0
Accrued payroll	<u>12,138</u>
Total Liabilities	12,797

FUND BALANCE

Reserved:	
Capital improvement	<u>330,134</u>
Total Fund Balance	<u>330,134</u>
Total Liabilities and Fund Balance	<u><u>\$342,931</u></u>

(See accompanying notes to financial statements)

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

GENERAL FUND

RECONCILIATION OF FUND BALANCE TO NET ASSETS

June 30, 2004

Total Fund Balance - Modified Accrual Basis	\$330,134
Amounts reported in the statement of net assets (page 7) are different because:	
Capital assets used in governmental activities are not financial resources, and are not reported in the funds	915,825
Accumulated depreciation on capital assets does not represent a current outflow of resources and therefore is not recorded in the funds	<u>(439,207)</u>
Net Assets - Full Accrual Basis	<u><u>\$806,752</u></u>

(See accompanying notes to financial statements)

**MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN**

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2004

Revenues:

Intergovernmental	
City of Milan	\$108,600
Milan Township	49,944
London Township	39,131
York Township	67,982
Federal grants	17,986
State grants	2,987
Charges for services	111,671
Interest revenue	1,957
Donation	5,000
Total Revenues	<hr/> 405,258

Expenditures:

Bookkeeper	15,000
Business meetings, training and mutual aid wages	11,176
Fire run wages	100,531
Officers' wages	16,225
Dispatcher - traffic control	20,970
Payroll preparation	688
Payroll taxes	12,590
Gas and oil	2,991
Supplies-office	3,927
-other	2,947
Audit	2,800
Attorney	307
Medical exams	1,186
Telephone	1,925
Insurance	30,915
Pagers	3,789
Utilities	8,818
Building maintenance	2,358
Vehicle maintenance	10,616
Equipment maintenance	4,366
Radio maintenance	2,143
Equipment check and housekeeping	2,400
Rent	15,657
Training	26,035
Miscellaneous	1,792
Small equipment	46,056
Capital outlay	62,113
Total Expenditures	<hr/> 410,321
Excess of Revenues over Expenditures	<hr/> (5,063)
Fund Balance - Beginning of Year	<hr/> 335,197
Fund Balance - End of Year	<hr/> \$330,134
(See accompanying notes to financial statements)	

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

GENERAL FUND

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2004

Net Change in Fund Balance - Modified Accrual Basis (\$5,063)

Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	62,113
Depreciation	(37,053)

Change in Net Assets - Full Accrual Basis	<u>\$19,997</u>
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(See accompanying notes to financial statements)

**MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

Note 1 **Reporting Entity**

The Milan Area Fire Department was established July 1, 1980 by an agreement dated March 20, 1980 between the City of Milan, London Township, Milan Township, and York Township, all located in the Counties of Monroe and Washtenaw. During May, 1990, the units of government involved in the Milan Area Fire Department signed an Amended Agreement which was effective July 1, 1990. The terms of this Amended Agreement were intended to remain in full force and effect until June 30, 2000. The units of government involved with the Milan Area Fire Department signed a letter to extend the Amended Agreement to June 30, 2003. Effective January 1, 2003, this agreement was replaced with an agreement intended to remain in full force and effect to June 30, 2007. This Agreement provides the means for operating and financing the Milan Area Fire Department. The Fire Department is governed by an Executive Committee consisting of the Chief Executive of each of the participating units together with one additional member of the governing body from each unit. The purpose of the Fire Department is to provide fire protection to the City and Townships in accordance with the authorization of Act 33, Public Acts of Michigan, 1951.

In accordance with the provisions of NCGA Statement 3 and subsequently given authoritative status by the Governmental Accounting Standards Board (GASB) in its Statement 1, the Fire Department is not considered to be part of any other governmental entity for financial reporting purposes. The criteria established by NCGA for determining the organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public services, and special relationships. Oversight responsibility considers the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public services. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens. On this basis, the financial statements of certain other entities are not included in the financial statements of the Milan Area Fire Department.

Note 2 **Summary of Significant Accounting Policies**

The accounting policies of the Milan Area Fire Department conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant accounting policies.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Fire Department's overall financial position and results of operations

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

Note 2 Summary of Significant Accounting Policies (Continued)

- Financial statements prepared using full accrual accounting for all of the Fire Departments activities
- A change in the fund financial statements to focus on the major funds

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

A. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the Fire Department are prepared in accordance with accounting principles generally accepted in the United States of America. The Fire Department's reporting entity applies all relevant GASB pronouncements. The Fire Department also applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 unless they conflict with GASB pronouncements. The Fire Department's basic financial statements include both government-wide (reporting the Fire Department as a whole) and fund financial statements. Both statements categorize primary activities as governmental only. The Fire Department does not have any business-type activities.

Government-Wide Financial Statements

The Government-Wide Financial Statements (i.e., the Statement of Net Assets and the Statement of Activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. *Governmental activities* normally, are supported by intergovernmental revenues.

The Statement of Net Assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligation. The Fire Department's net assets are reported in two parts - invested in capital assets, and restricted for capital improvement. The Fire Department did not have any long term debt or obligations during 2003 - 2004.

The Statement of Activities demonstrates the degree to which the expenses of the Fire Department are offset by revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) Charges to local units who use or directly benefit from goods, services, or other privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Interest and donations are not included among program revenues but are properly reported as general revenues.

**MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

Note 2 **Summary of Significant Accounting Policies (Continued)**

Fund Financial Statements

Governmental Fund Financial Statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the Fire Department considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as claims and judgments, are recorded only when payment is due.

The operations of the Milan Area Fire Department are accounted for in one general fund with its own set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures.

GOVERNMENTAL FUNDS

General Fund - The General fund is the general operating fund of the Fire Department. It is the only fund used to account for all financial resources and is presented as a major fund.

B. Deposits

The Fire Department has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Deposits are carried at cost.

C. Receivables

All receivables are recorded net of any uncollectible amounts.

D. Capital Assets

Capital assets are defined by the Fire Department as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical costs. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Equipment	5 - 15 years
Vehicles	20 years

**MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2004

Note 2 **Summary of Significant Accounting Policies (Concluded)**

E. Budget

A budget is adopted by the Fire Department Executive Committee. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect the actual revenues and expenditures for this fund. The budget is adopted at the activity level. The executive committee is authorized to transfer budget amounts within an activity and to make authorized amendments to the original approved budget. Appropriations unused at June 30, are not carried forward to the following fiscal year. Any budgeted operating expenses that are unused are credited to the various governmental units at the beginning of the next fiscal year.

F. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

Note 3 **Deposits**

Statutes authorize government units to invest in obligations of the U.S. Treasury, agencies, and instrumentalities; commercial paper within the three highest rate classifications by at least two rating services; bankers' acceptances of U.S. Banks, U.S. or agency repurchase agreements; savings accounts and certificates of deposits with banks and savings and loan associations, or credit unions which are insured with the applicable federal agency.

The Milan Area Fire Department has authorized three depositories: Bank One, N.A., Monroe Bank & Trust, and Standard Federal.

Deposits are carried at cost. The carrying amount of all deposits are displayed on the balance sheet as "Cash".

The cash deposits at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

Category 1 Deposits which are insured or collateralized with securities held by the Fire Department or by its agent in the Fire Department's name.

Category 2 Deposits which are collateralized with the securities held by the pledging financial institution's trust department or agent in the Fire Department's name.

Category 3 Deposits which are not collateralized or insured.

As of June 30, 2004, the Fire Department had deposits classified as Category 1 and Category 3.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

Note 3 **Deposits (Concluded)**

The following is a summary of these deposits:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Category 1:		
FDIC insured	\$186,799	\$225,564
Category 3:		
Uninsured and uncollateralized	<u>27,268</u>	<u>35,652</u>
	<u>\$214,067</u>	<u>\$261,216</u>

Note 4 **Capital Assets**

The following is a summary of the changes in capital assets of the Fire Department for the fiscal year ended June 30, 2004:

	<u>Balance at July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2004</u>
Equipment	\$ 48,622	\$ 8,384	\$7,600	\$ 49,406
Vehicles	<u>812,690</u>	<u>53,729</u>	<u>-</u>	<u>866,419</u>
	861,312	62,113	7,600	915,825
Less: Accumulated Depreciation	<u>409,754</u>	<u>37,053</u>	<u>7,600</u>	<u>439,207</u>
Net Capital Assets	<u>\$451,558</u>	<u>\$25,060</u>	<u>\$ -</u>	<u>\$476,618</u>

Depreciation is recorded using the straight-line method over 5 to 15 years for equipment and 20 years for vehicles.

Note 5 **Lease**

The Milan area Fire Department leases the fire station from the City of Milan. Under the lease, the Fire Department shall assume and pay all expenses necessary for the operation of the fire station. Rent expense for the fiscal year ended June 30, 2004 was \$15,657. This lease is in effect until June 30, 2007.

Note 6 **Dispatching Services**

The City of Milan provides dispatching services for the Milan Area Fire Department. Dispatching expense for the fiscal year ended June 30, 2004 was \$20,970.

Note 7 **Fund Balance-Reserved for Capital Improvement**

Any fund balance not otherwise reserved has been set aside by the Executive Committee as Reserved for Capital Improvement.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2004

Note 8 **Risk Management**

The Milan Area Fire Department is exposed to various risks of loss related to property loss, torts, errors, omissions and employee injuries for which the Fire Department carries commercial insurance.

Note 9 **Change in Accounting Principles**

As of and for the year ended June 30, 2004, the Fire Department was required to implement the following Governmental Accounting Standards Board Pronouncements:

Statements

No. 33 - *Accounting and Financial Reporting for Non-exchange Transactions*

No. 34 - *Basic Financial Statements and Management Discussion and Analysis
for State and Local Governments*

No. 36 - *Recipient Reporting for Certain Shared Non-exchange Revenues - An
Amendment of GASB No. 33*

No. 37 - *Basic Financial Statements and Management Discussion and Analysis - for
State and Local Governments; Omnibus*

No. 38 - *Certain Financial Statement Note Disclosures*

The more significant of the changes required by the new standards include:

Basic financial statements that include:

Government-Wide financial statements, prepared using the economic resources
measurement focus and the accrual basis of accounting;

Notes to the basic financial statements

Required supplementary information

As a result of implementing these pronouncements for the fiscal year beginning July 1, 2003, the following restatements were made to beginning net asset accounts.

Government-Wide financial statements. Beginning net assets for governmental activities was determined as follows:

Fund balance of the General Fund as of June 30, 2003	\$335,197
Add: Governmental Capital Assets including General Capital assets as of June 30, 2003	861,312
Deduct: Accumulated Depreciation as of June 30, 2003	<u>(409,754)</u>
Governmental Net Assets, restated, as of July 1, 2003	<u>\$786,755</u>

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

Note 10 **Related Party Transaction**

As stated in Note 5 and Note 6, the Fire Department leases the fire barn and obtains dispatching services from the City of Milan. The City of Milan maintains an ownership interest in the Fire Department.

Note 11 **Excess of Expenditures Over Appropriations**

	<u>General Fund</u>
Appropriations	\$366,357
Expenditures	<u>410,321</u>
Excess Expenditures	\$ <u>43,964</u>

**MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN**

GENERAL FUND

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE**

For the Year Ended June 30, 2004

	Originally Adopted Budget	Final Amended Budget	Actual Balances	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental:				
City of Milan	\$108,887	\$108,887	\$108,600	(\$287)
Milan Township	50,075	50,075	49,944	(131)
London Township	39,234	39,234	39,131	(103)
York Township	68,161	68,161	67,982	(179)
Federal grants	0	0	17,986	17,986
State grants	0	0	2,987	2,987
Charges for services	100,000	100,000	111,671	11,671
Interest revenue	0	0	1,957	1,957
Donation	0	0	5,000	5,000
Total Revenues	366,357	366,357	405,258	38,901
Expenditures:				
Bookkeeper	15,000	15,000	15,000	0
Business meetings, training	7,000	7,000	11,176	(4,176)
Fire run wages	100,000	100,000	100,531	(531)
Officers' wages	16,000	16,000	16,225	(225)
Dispatcher - traffic control	20,970	20,970	20,970	0
Payroll preparation	750	750	688	62
Payroll taxes	10,250	10,250	12,590	(2,340)
Gas and oil	5,000	5,000	2,991	2,009
Supplies-office	4,000	4,000	3,927	73
-other	5,000	5,000	2,947	2,053
Audit	2,600	2,600	2,800	(200)
Attorney	700	700	307	393
Medical exams	2,500	2,500	1,186	1,314
Telephone	3,080	3,080	1,925	1,155
Insurance	25,000	25,000	30,915	(5,915)
Pagers	3,750	3,750	3,789	(39)
Utilities	8,700	8,700	8,818	(118)
Building maintenance	2,500	2,500	2,358	142
Vehicle maintenance	10,000	10,000	10,616	(616)
Equipment maintenance	9,000	14,000	4,366	9,634
Radio maintenance	3,500	3,500	2,143	1,357
Equipment check and housekeeping	2,400	2,400	2,400	0
Rent	15,657	15,657	15,657	0
Training	18,000	18,000	26,035	(8,035)
Miscellaneous	2,000	2,000	1,792	208
Small equipment	23,000	18,000	46,056	(28,056)
Capital outlay	50,000	50,000	62,113	(12,113)
	366,357	366,357	410,321	(43,964)
Excess of Expenditures over Revenues	0	0	(5,063)	(5,063)
Fund Balance - Beginning of Year	335,197	335,197	335,197	0
Fund Balance - End of Year	\$335,197	\$335,197	\$330,134	(\$5,063)



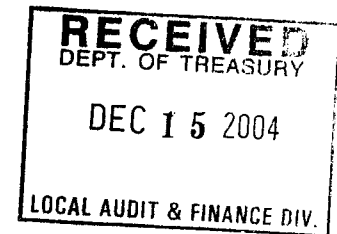
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Executive Committee
Milan Area Fire Department
Milan, Michigan 48160



Dear Members of the Executive Committee:

We have audited the basic financial statements of the Milan Area Fire Department, Milan, Michigan, as of June 30, 2004 and for the fiscal year ended and have issued our report thereon, dated September 16, 2004.

In addition to the audit report, we offer the following comments and recommendations for your review and consideration.

New Financial Statement Format (GASB 34)

As you are aware, Governmental Accounting Standards Board (GASB) Statement No. 34 was implemented for the Fire Department's 2003 fiscal year. GASB 34 has dramatically changed the look and feel of the financial statements. While the financial statements retain an element of familiarity with the continued reporting of fund based information, there are several additions and changes that provide information never before presented in the Fire Department's annual financial report. A brief summary of the changes are as follows:

- Management Discussion and Analysis (MD&A): The MD&A provides a high-level overview of the Fire Department's financial position and results of operations, with a focus on the government-wide financial statements.
- Government-Wide Financial Statements: These additional statements adjust the normal fund-based statements into a combined, full-accrual format (similar to for-profit commercial enterprises). This allows a financial statement reader to see the Fire Department from a longer term, economic perspective (i.e., are today's taxpayers paying for today's services?). These statements show capital assets as part of the Fire Department's overall financial picture.
- Budget Comparison: A financial statement reader will now be able to view actual revenues and expenditures as compared to the current budget, and also as compared to the original budget.

Operating Expenses Billed

It was noted during our audit that the four municipalities were underbilled by \$700 for the budgeted operating expenses for fiscal year ended June 30, 2004.

It was also noted during our audit that actual operating expenses(excluding small equipment and capital outlays) in the amount of \$302,152 exceeded the budgeted operating expenses in the amount of \$298,357. The Fire Department was not under budget and therefore, no credit is due to the municipalities in the next fiscal year.

Budgets

During the fiscal year ended June 30, 2004, the general fund had expenditures which exceeded appropriations.

Appropriations	\$366,357
Expenditures	<u>410,321</u>
Excess Expenditures Over Appropriations	<u>\$ 43,964</u>

This was in violation of the Uniform Budget Act, which requires budget amendments before expenditures exceed the budget.

We recommend that the executive committee approve budget amendments before expenditures exceed the budget.

It has been a pleasure to serve you and we appreciate the cooperation we received during the audit. If you have any questions concerning the audit report or this letter, please contact us.

Very truly yours,

Cooley Hehl
Wohlgenuth + Carlton

September 16, 2004